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Global Agricultural Information Network

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Grain and Feed Annual

Grain and Feed Annual 2011

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Report Highlights: Pakistan wheat production in MY 2011/12 is forecast at 23.5 million metric tons (MMT), down two percent relative to last year's harvest of 23.9 MMT. Despite last year's unprecedented floods, Pakistan's wheat supply situation remained relatively comfortable throughout MY2010/11 mainly because the wheat crop was already harvested and stored well before the calamity hit the agricultural plains of the country. Wheat/flour prices also remained relatively stable thus enabling Pakistan to avoid food insecurity during the year of historic floods. The 2010 floods did, however, adversely affect the MY 2010/11 rice crop. Pakistan's MY 2010/2011 rice production is now estimated at 4.7 MMT, 6 percent higher than post's previous estimates and 31 percent lower than last year's production level. MY 2011/12 rice production is forecast at 6.8 MMT.

Executive Summary:

Pakistan's wheat production in marketing year (MY) 2011/12 (May/April) is forecast at 23.5 million metric tons (MMT), down two percent relative to last year's harvest of 23.9 MMT. Last year, the Government of Pakistan (GOP) procured 6.7 MMT of wheat from the local harvest, and fixed a procurement target of 6.5 MMT for MY 2011/2012. Pakistan lifted the ban on the export of wheat during December 2010 and has allowed private sector to export wheat. Consequently, Post's estimate of Pakistan's MY 2010/2011 wheat export is increased to 1.0 MMT. This increase is also attributed to tighter global supplies which has increased prices and made Pakistan's wheat competitive in the world market. Wheat exports in MY 2011/12 are forecast at 1.2 MMT

Despite unprecedented floods, Pakistan's wheat supply situation remained relatively stable throughout MY2010/11 mainly because the wheat crop was already harvested and stored well before the calamity hit the agricultural plains of the country. Wheat/flour prices also remained relatively stable, thus, enabling Pakistan to avoid food security issues.

During 2010 Pakistan experienced the worst floods in its recent history which adversely affected the MY 2010/11 rice crop. Pakistan's MY 2010/2011 rice production is now estimated at 4.7 MMT, 6 percent higher than post's previous estimate and 31 percent less than last year's production level. MY 2011/12 production is forecast at 6.8 MMT. Post's estimate of Pakistan's rice exports in MY 2009/10 is increased to 4.0 MMT and ending stocks adjusted accordingly to 1.1 MMT. MY 2010/11 rice exports are estimated at 2.5 MMT, a decrease of sixty percent from the last year's estimate mainly due to the reduced production caused by the catastrophic floods. Rice exports in MY 2011/12 are projected at 3.9 MMT based on the expectation of a good harvest.

Commodities:

Wheat

Production:

Wheat is Pakistan's most important agricultural crop, which is grown by about 80 percent of all farmers, and covers on close to 40 percent of the total cultivated area. Wheat production in Marketing Year (MY) 2011/12 (May/April) is forecast at 23.5 million metric tons (MMT), down two percent from last year's production level of 23.9 MMT. The projected decline in production is attributed to reduction in the harvested area. The current year's wheat crop is forecast to be the third largest harvest on record. After the floods there were concerns about significant reduction in the wheat area planted. The apprehension was based on the assumption that land in the flood affected regions might not be ready in time for wheat cultivation. But ensuing weather conditions coupled with farmer and government efforts resulted in timely sowing of wheat in critical areas. The Government procurement price remained attractive to the farmers. The government procurement price for wheat was set during MY 2009/10 at Rs.950 per 40 kg

(\$276/MT), and was maintained at that level for the 2010 crop and for 2011 procurement season (April-June). Improved soil moisture, favorable weather conditions coupled with adaption of improved agricultural practices and increased use of fertilizer helped to support yields.

Area harvested is two percent lower than last year and is estimated at 8.9 million hectares. Wheat area harvested by province is shown in Table 2.

Table 1: Wheat Area Harvested by Province

Province	Area (Million Hectares)	Percentage of Total Area
Punjab	6.836	76
Sindh	1.041	12
KPK	0.686	8
Baluchistan	0.327	4
Total	8.890	100

The use of fertilizer during the 2010 wheat growing season increased slightly as compared to last year. Total fertilizer nutrient off take for the period October-January increased by 2.0 percent (from 1.67 MMT during 2009/10 to 1.70 MMT during 2010/11, nitrogen use increased by 1.2 percent, and phosphate use was up by 3.2 percent.

Water availability for irrigation during the 2010-11 Rabi season was 12 percent below normal as compared to 30 percent during last year's season. This year, reduced water availability was largely been offset by timely rains. While the rainfed crop has benefited from better weather conditions, irrigated wheat is also responding well to favorable conditions. Stored water for irrigation is held mainly in two large reservoirs, Tarbela and Mangla, for use during the summer and during the "Rabi," or winter growing season. About two-thirds of the country's irrigation water is sourced from snow and glacier melts, with the balance supplied by tube wells and seasonal monsoon rains.

Since the completion of the nation's irrigation system in the 1970s, demand for water has increased by more than 50 percent, while storage capacity has decreased by about one-third due to silting. This has left per capita water availability at a fraction of its earlier levels. As a result, chronic shortfalls in water available for irrigation are expected to impose an increasingly larger constraint on Pakistan's agricultural prospects.

The impact of water shortages is traditionally more severe in the Sindh province than in the Punjab region. Many parts of Sindh's ground water is alkaline and not fit for irrigation, thereby necessitating a greater reliance on canal water. In the Punjab province extensive tube well irrigation is utilized. Bulk of the wheat crop is about to enter the grain-formation stage. Low temperatures in March, dry weather and plenty of sunlight during the first half of April will be critical for the success of this year's output.

Consumption:

Wheat flour or 'atta' is the staple food for most Pakistanis, supplying 72 percent of caloric energy in the average diet. Per capita wheat consumption has traditionally been estimated at around 124kg/year which is among the highest in the world. Despite last year's unprecedented floods Pakistan's wheat supply

situation remained relatively stable throughout MY2010/11 mainly because the wheat crop was already harvested and stored well before the calamity hit the agricultural plains of the country.

Wheat/flour prices were relatively stable, during MY2010/11 thus, enabling Pakistan to avoid issues of food insecurity during the year of historic floods. This is in contrast to MY 2009/10 when Pakistan flour prices increased by 50 percent and consumers were forced to pay some of the highest prices in the world. The price increase was a direct result of fifty two percent increase in the government procurement price during October 2009. International organizations such as World Food Program (WFP) report that in response to high prices and falling incomes, Pakistan's per capita wheat consumption is declining. This assessment to be supported by rising wheat stocks as reported by the government. Consequently, Post's wheat consumption figures for MY 2009/10 and MY 2010/11 were adjusted downwards to 22.8 and 23,000 MMT respectively. Per Post's current estimates, Pakistan's wheat consumption is increasing at a slower rate than population growth. The present market price of wheat flour in Pakistan is around \$314/ MT which is about six percent less than prevailing world prices.

There are about 1,000 flour mills in Pakistan, which meet the consumption needs of about 40 percent of the population, with the balance met by on farm consumption. The disbursement of government-owned wheat to the flour mills is managed in an effort to ensure that sufficient wheat is available throughout the year. The government has set this year's wheat procurement target at 6.5 MMT, which will cost the government about \$1.8 billion to purchase.

Consumer preference is shifting from traditional flat bread to western-style, loaf bread, particularly in urban areas where western bread is viewed as a convenient breakfast food. Traditional home-ground flour is also losing favor to commercially milled flour. The change in preference from higher whole grain to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products is also increasing in response to changing lifestyles which are more receptive to western-style fast food chains recently introduced into Pakistan.

Trade:

The Government of Pakistan lifted its ban on the export of wheat in December 2010 and allowed private sector to export wheat. The decision was made in response to a request made by the Punjab provincial government, which at that time had over 5.7 MMT of wheat stocks. Consequently Post's estimate of Pakistan's MY 2010/2011 wheat export is increased to 1.0 MMT. Pakistan is currently exporting wheat at around \$335/MT mainly to Bangladesh, Myanmar, Yemen and East Africa (Tanzania, Kenya, and Zanzibar).

Afghanistan has been a traditional wheat export market for Pakistan. It should however be noted that due to inconsistent trade policies Pakistan has not proved itself as a reliable supplier for Afghanistan. As a result, Afghanistan traders turned to alternate suppliers mainly Central Asian Republics. Pakistan's wheat/flour exports to Afghanistan during MY2010/11 are estimated at around 300,000 MT.

The government has also announced that there will be no ban on the export of wheat during the 2011 procurement season. Under the current scenario Pakistan is expected to export 1.2 MMT during MY2011/12, however this will ultimately depend on the actual size of this year's crop.

Stocks:

The GOP holds most wheat stocks through various provincial food departments and the federal agency known as the Pakistan Agricultural Storage and Services Corporation (PASSCO). Due to decreasing

consumption pattern MY 2009/10 ending stocks are adjusted upwards to 3.4 MMT. Last year the GOP procured 6.7 MMT of wheat from the local harvest and is expected to have an estimated 3.5 MMT of carryover stocks by the end of MY 2010/2011. On February 28, stocks were reported at 5.3 MMT, while last year in the same month the stocks were 5.1 million tons. The breakdown of current stock is: PASSCO 1.096 MMT; Punjab 3.745 MMT; Sindh 0.328 MMT; KPK 0.143 MMT; and Baluchistan 0.073 MMT.

The Government has fixed a procurement target of 6.57 MMT for MY 2011/2012. The cost of purchasing the target volume at the procurement price is nearly \$1.8 billion. Given government wheat stocks of 5.3 MMT, storage constraints, as well as a difficult fiscal environment, there are concerns over the government's ability to finance the quantity of wheat targeted for government purchases.

Table 2: Government Wheat Procurement Target for MY 2011/12

Province	Procurement Target (Million Tones)
Punjab	3.5
Sindh	1.3
KPK	0.4
Baluchistan	0.07
PASSCO	1.3
Total	6.57

Policy:

Pakistan maintains a largely government controlled wheat marketing system. Wheat prices and the movement of wheat are controlled at the provincial and district levels. The Federal government controls the market through a minimum guaranteed support price and an issue price for wheat sold to flour mills. Grain stocks are procured and maintained by the provinces. Pakistan Agriculture Storage and Services Corporation (PASSCO) is in charge on behalf of the federal government.

The government intervenes to finance the purchase of wheat and fixes their prices prior to sowing in an effort to provide good returns to cultivators and keeping the commodity markets intact. It is also assumed responsibility for the storage of millions of tons of wheat. The government wheat procurement storage and distribution system is financed through borrowed money from commercial banks. The measures adopted by the federal and provincial governments are largely inconsistent with the tenants of a free market system, but the government considers it pivotal to keep supplies and price of wheat under check. Past evidence however, indicates that the government is slow to react to changing market conditions sometimes resulting in greater shocks in the market due to lack of timely and effective decisions taken pertaining to pricing and marketing. These government initiatives fuel inflation and enlarge the fiscal deficit by creating high levels of public debt.

Wheat procurement is financed through funds obtained from banks. Bank advances are utilized to procure, hold, and maintain stocks of wheat. The advances are subsequently retired as the stocks are sold or exported, but according to the State bank of Pakistan, there has been an exponential growth of bank credit for commodity operations during the past decade from Rs 107.4 billion (\$1.25 Billion)

during FY 2000, to Rs 414.2 billion (\$4.8 billion) during FY 2010. Almost 20 banks are engaged in commodity financing, with the top 5 banks holding a sizable average share of 92 percent. The latest figures indicate that the commodity debt of wheat alone has reached to Rs300 billion (\$34.8 Billion). Prudent management of commodity operations can reduce the debt figures and also fiscal pressures faced by the federal and provincial governments.

Production, Supply and Demand Data Statistics:

Wheat: Production Supply and Demand

Wheat Pakistan	2009			2010			2011		
	2009/2010			2010/2011			2011/2012		
	Market Year Begin: May 2009			Market Year Begin: May 2010			Market Year Begin May 2011		
	Annual Data Displayed			Annual Data Displayed			Annual Data displayed		
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Harvested	9,046	9,046	9,046	9,030	9,028	9,028		8,890	
Beginning Stocks	2,663	1,944	1,944	3,366	3,000	3,400		3,500	
Production	24,033	24,000	24,000	23,900	23,900	23,900		23,500	
MY Imports	170	556	556	200	300	200		200	
TY Imports	195	556	556	200	300	200		200	
TY Imp. from U.S.	144	0	0	0	0	0		0	
Total Supply	26,866	26,500	26,500	27,466	27,200	27,500		27,200	
MY Exports	300	300	300	900	500	500		1,200	
TY Exports	300	300	300	1,200	500	1,000		1,200	
Feed Consumption	400	400	400	1,000	400	400		400	
FSI Consumption	22,800	22,800	22,400	23,000	23,000	22,600		22,800	
Total Consumption	23,200	23,200	22,800	24,000	23,400	23,000		23,200	
Ending Stocks	3,366	3,000	3,400	2,566	3,300	3,500		2,800	
Total Distribution	26,866	26,500	26,500	27,466	27,200	27,500		27,200	
Yield	2.65	2.65	2.65	2.65	2.49	2.65		2.64	

Commodities:

Rice, Milled

Production:

Pakistan's worst floods in recent history adversely affected the MY 2010/11 rice crop. Pakistan's MY 2010/2011 rice production is now estimated at 4.7 MMT, 31 percent lower than the 2009/10 production

level and 6 percent higher than post's previous estimate. MY 2011/12 production is forecast at 6.8 MMT.

About 11 percent of Pakistan's total agricultural area is planted to rice. It is the third largest crop in Pakistan (after wheat and cotton), and is grown under diverse climatic conditions. Unlike other South and South Asian countries, rice is not considered a staple crop in Pakistan. Pakistan is known for producing and exporting Basmati and IRRI rice. Basmati is grown in Punjab and IRRI is grown in both Punjab and Sindh. The major varieties of Basmati rice exported are Super Kernel Basmati Rice, Parboiled Super Kernel Basmati Rice, Basmati Pk 385 Rice, D 98 Basmati Rice, etc. Coarse varieties exported are IRRI-6 and IRRI -9 Medium Grain Rice etc.

Prospects for the 2011 crop will depend on water availability during the critical May-August period. Reduced water availability during this period would have a greater impact on the crop prospects for IRRI rice, as IRRI is mostly grown in Sindh and largely dependent on canal irrigation. Meanwhile Basmati is grown in Punjab, where large-scale tube well irrigation is available. Based on the source of water input and current water availability, both types of rice are expected to be sown on time.

Consumption:

Rice is not a staple food in Pakistan. Traditionally about 45 percent of the crop is used for local consumption, with the balance exported. Pakistanis, in general, prefer the higher priced Basmati rice which is mainly consumed by the more affluent. IRRI and other varieties are largely consumed by the less affluent due to the price differential.

The GOP does not maintain official grade standards for rice. Traditionally, an estimated 150,000 MT of 40-100 percent broken rice is used in poultry feed annually.

Trade:

Rice is Pakistan's second largest export revenue earner after textiles. Post's estimate of Pakistan's rice exports in MY 2009/10 is increased five percent to 4.0 MMT and ending stocks adjusted accordingly to 1.1 MMT. MY 2010/11 rice exports are estimated at 2.5 MMT, a decrease of sixty percent from the last year's estimate mainly due to the reduced production as a result of catastrophic floods and weaker world prices. Rice exports in MY 2011/12 are projected at 3.9 MMT based on the expectation of a good harvest.

The United Arab Emirates, Saudi Arabia, Malaysia, Kuwait, Mauritius, South Africa and Iran are the major rice export destinations. The EU and the United States are also important and growing markets. Pakistan produces about 2/3 of the world's Basmati rice crop, while the balance being grown in India.

Rice is a major Pakistani export to United States. Out of \$62 million in Pakistani agricultural exports to the United States during 2010, rice exports comprised \$22 million (35 percent) of the total. Recently Khapra beetle was detected in some rice consignment from Pakistan to United States and if effective measures are not taken by Pakistan, this can cause significant problems for the future Pakistan rice exports to US.

Timely availability of rice export data by destination remain an issue in Pakistan and even private sector organizations like Rice Exporters Association of Pakistan (REAP) is not sharing the information.

Stocks:

Policy:

Pakistan's rice traders have responded well to market liberalization and have taken a leading role in rice market. Exporters made huge investments in rice processing equipment installing state-of-the-art imported machinery to improve the quality of rice. Private sector investment in milling improved the quality of rice available for exports, thus enhancing the competitiveness of Pakistan's rice in the world market. As a result Pakistan's Rice exports have witnessed a 260 percent growth in value over the last six years or an annual growth rate of 25 percent since 2002-03.

Rice: Production Supply and Demand

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